

Message Text

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ACTION EB-11

INFO OCT-01 AF-10 ISO-00 ABF-01 FSE-00 PA-04 PRS-01 USIA-15

AID-20 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 RSC-01

TRSE-00 XMB-07 OPIC-12 SP-03 CIEP-02 LAB-06 SIL-01

OMB-01 DRC-01 /109 W

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R 071230Z JUN 74

FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 0003

INFO AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

UNCLAS PRETORIA 2425

E.O. 11652: N/A

TAGS: EFIN, SF

SUBJ: INCREASE IN SA INTEREST RATES

1. ON MAY 30, SARB ANNOUNCED FOLLOWING INTEREST RATE ADJUSTMENTS TO BE EFFECTIVE FROM JUNE 1: (A) BANK RATE FROM 6.5 TO 7.5; (B) SHORT TERM GILT RATE FROM 5.5 TO 6.5; (C) LONG TERM GILT RATE FROM 8.25 TO 8.5; (D) INCREASE OF 1.5 PERCENT IN RATES BANKS COULD OFFER FOR VARIOUS TYPES OF DEPOSITS; (E) SAME FOR BUILDING SOCIETIES EXCEPT FOR 1 PERCENT INCREASE ON SUBSCRIPTIONS AND TAX FREE SHAQIINKF) REMOVAL OF INTEREST RATE LIMITS ON INTER-BANK LOANS.

2. SARB STATEMENT SAYS ADJUSTMENTS NECESSARY IN VIEW OF DOMESTIC AND INTERNATIONAL ECONOMIC DEVELOPMENTS. EXPANSION OF MONEY AND NEAR MONEY RESULT OF INCREASED GOLD REVENUES BUT MORE OF RAPID EXPANSION OF BANK CREDIT (36 PERCENT IN 1973 AND ANNUAL RATE OF 25 PERCENT IN FIRST QUARTER 1974). THIS KEPT SA INTEREST RATE STRUCTURE BELOW THAT PREVAILING IN WORLD, AND CONTRIBUTED TO NET OUTFLOW OF CAPITAL WITH RESULTANT DECLINE IN RESERVES. THIS IN TURN REDUCED LIQUIDITY OF BANKS WHICH AGGREGATED BY SHIFTS

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FROM MEDIUM AND LONG TERM TO SHORT TERM DEPOSITS WITH HIGHER RE-

SERVE REQUIREMENTS (45 PERCENT FOR SHORT TERM) AND GENERAL INABILITY TO ATTRACT NEW DEPOSITS IN VIEW OF INFLATION RATE. FINAL CONSIDERATION WAS THAT ECONOMY APPROACHING STAGE OF DEMAND INFLATION (INVESTMENT AND CONSUMPTION EXPENDITURES) ASSOCIATED WITH ECONOMIC UPTURN.

3. STATEMENT CONTINUES IT "IRRESPONSIBLE" TO CONTINUE "EXCESSIVE RELIANCE" ON BANK CREDIT AND TO MAINTAIN "ABNORMAL" DOMESTIC AND FOREIGN RATES. RATHER THAN RELAX RESERVE DISCREPANCY BETWEEN REQUIREMENTS, POLICY IS TO SLOW DOWN RATE OF DOMESTIC CREDIT EXPANSION AND NARROW DISCREPANCY BETWEEN SA AND FOREIGN RATES.

4. STATEMENT ANTICIPATES INTEREST RATE ADJUSTMENTS THROUGHOUT ECONOMY WHICH HAVE SUBSEQUENTLY BEEN ANNOUNCED: (A) 12-MONTH DEPOSIT FROM 8.0 TO 9.5; (B) PRIME BANK OVERDRAFT FROM 9.0 TO 10.0 (MAXIMUM OVERDRAFT REMAINS AT 12.0 THOUGH RUMORED TO MOVE TO 12.5); AND (C) MORTGAGE RATE FROM 9.25 TO 10.5.

5. MINFIN DIEDERICH'S ALSO ANNOUNCED NEW SUBSIDIES FOR HOME MORTGAGE LOANS, HOUSING LOANS FOR PUBLIC SERVANTS AND FARM MORTGAGE LOANS TO REDUCE IMPACT OF RATE INCREASES IN THESE CATEGORIES.

6. COMMENT: THOUGH SARB ACTION GENERALLY WELCOME, MANY ANALYSTS DUBIOUS THAT STEPS SUFFICIENT. GIVEN CURRENT 10 PERCENT ANNUAL RATE OF INFLATION WHICH MORE LIKELY THAT NOT TO INCREASE, IT NOT RPT NOT CLEAR THAT NEW DEPOSIT RATES SUFFICIENT TO ATTRACT DEPOSITS OR FUNDS FROM "GREY MARKET". NOR IS IT CLEAR THAT NARROWED DISCREPANCY WITH FOREIGN RATES SUFFICIENT TO REVERSE OUTFLOW OF SHORT TERM FUNDS (MOSTLY TRADE FINANCING). SARB COUNTING ON INCREASED GOVT EXPENDITURES AND PROCEEDS FROM MAIZE CROP SALE TO EASE LIQUIDITY POSITION OF BANKS. AGAIN SOME COMMENTATORS SKEPTICAL AND SEE EFFORTS TO CONSTRAIN BANK LENDING AS RUNNING CONTRARY TO STATED SAG POLICY OF ENCOURAGING GROWTH.
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